

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 SAJ-01 IO-14

DRC-01 /184 W

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R 051610Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4835

INFO AMEMBASSY PARIS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY LONDON

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14065

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FINANCE MINISTER APEL ON CREDIT TO ITALY

REF: BONN 14004

1- SUMMARY. FINANCE MINISTER APEL FILLED ME IN ON
SEPTEMBER 5 WITH DETAILS OF THE RECENT ITALIAN LOAN.
HE EXPLAINED THAT RECOURSE TO THE BUNDESBANK LOAN WAS
ACCEPTED AFTER A REVIEW OF ALL OTHER POSSIBILITIES
REVEALED NO IMMEDIATE ALTERNATIVE FOR THE ITALIANS.

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HE DID NOT PRECLUDE ANOTHER SIMILAR LOAN AT A LATER

DATE, BUT FEARED THAT EVENTUALLY ITALIAN COLLATERAL WOULD BE EXHAUSTED. HE STRESSED THAT THE PROBLEM WAS TOO BIG FOR GERMANY ALONE AND SHOULD BE DEALT WITH INTERNATIONALLY. HE IS WORRIED AS TO WHETHER THE ITALIANS CAN MAINTAIN THEIR STABILITY PROGRAM ONCE ITS RESULTS ARE FELT IN ITALY. HE IS CONCERNED ABOUT THE RECYCLING PROBLEM, BUT HAS NO IDEAS AS TO WHAT CAN BE DONE ABOUT IT. FOR THE MOMENT HE SEES NO ALTERNATIVE TO PALLIATIVES SUCH AS THE ITALIAN LOAN. HE SAID THAT HE WOULD HOPE TO TALK ABOUT THESE MATTERS WITH SECRETARY SIMON WHEN HE NEXT SEES HIM. END SUMMARY.

2. FINANCE MINISTER APEL, DURING THE COURSE OF MY CALL ON HIM SEPTEMBER 5, FILLED ME IN ON THE BACKGROUND TO THE \$2 BILLION BUNDESBANK CREDIT LOAN TO ITALY ANNOUNCED AT THE RUMOR-SCHMIDT MEETING. APEL SAID THAT RUMOR AND SCHMIDT ALSO DISCUSSED SUNDRY OTHER ECONOMIC AND POLITICAL MATTERS, BUT THAT THE CREDIT AND ASSOCIATED ITALIAN PROBLEMS WERE THE ONLY MATTERS OF SIGNIFICANCE.

3. AFTER GOING OVER THE BACKGROUND OF HOW AGREEMENT HAD BEEN REACHED ON THE USE OF GOLD AS COLLATERAL AT SOMEWHERE NEAR MARKET PRICES, APEL EXPLAINED THAT THE RECENT LOAN WAS AGREED TO WHEN IT BECAME CLEAR THAT NO OTHER APPROACH IN THE NEAR TERM WAS POSSIBLE. DURING APEL'S EARLIER MEETING WITH COLOMBO, THEY HAD DISCUSSED ALL POSSIBILITIES. THE GERMANS HAD EXPLAINED THAT A GOVERNMENT LOAN TO ITALY WAS NOT FEASIBLE. THERE WERE BUDGET PROBLEMS, AND POLITICAL PROBLEMS, NOT TO MENTION THE TIME REQUIRED TO PROCESS SUCH A LOAN. IT WAS ALSO CLEAR THAT THE REGIONAL FUND WILL NOT COME ABOUT IN THE NEXT FEW WEEKS; IN ANY CASE, IT WOULD BE TOO SMALL TO DEAL WITH A PROBLEM OF THE ITALIAN MAGNITUDE.

4. APEL TOLD COLOMBO (AS HE HAD ALSO TOLD FOURCADE THAT AN EC LOAN WAS FEASIBLE BUT NOT SOON. THERE WERE PROBLEMS AS TO WHO GUARANTEED THE LOAN AND WHO

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GUARANTEED WHICH PART OF THE LOAN. THE FRG COULD NOT GUARANTEE ALL OF THE LOAN. FURTHERMORE, THE BUNDESBANK WOULD NOT BE ABLE TO GUARANTEE THE LOAN WITHOUT A BACKING OF THE GUARANTEE BY THE FRG WHICH WOULD PROBABLY REQUIRE LEGISLATION. IN ANY EVENT APEL SEES THE LOAN AS SMALL AND DISMISSES AS RIDICULOUS COMMISSION PROPOSALS OF LOANS AS LARGE AS 5 BILLION DOLLARS. THE SITUATION IS FURTHER COMPLICATED BY THE FACT THAT

FOUCADE MAINTAINS THAT FRANCE WILL ALSO WANT A SHARE OF THE PROCEEDS OF THE EC LOAN. THE GERMANS SEE THE LOAN AS PRIMARILY DESTINED FOR ITALY AND NOT FOR ANYBODY ELSE APEL SAID THAT THIS WOULD BE DISCUSSED AT THE MEETING OF THE EC FINANCE MINISTERS ON SEPT 16, BUT HE IS NOT SURE WHAT CAN BE DONE. HE SEES LITTLE COMING OUT OF THE MEETING WHICH WOULD BE OF SHORT-TERM ASSISTANCE TO THE ITALIANS.

5. ACCORDING TO APEL THE ITALIANS WANTED TO CONSOLIDATE FOR SOME YEARS THE SHORT-TERM EC CREDIT WHICH WILL EXPIRE ON SEPT 15. THE FRG WOULD HAVE BEEN FAVORABLY

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DISPOSED TO SUCH A CONSOLIDATION, BUT THE FRENCH AND BRITISH FIND CONSOLIDATION UNACCEPTABLE.

6. AFTER COVERING ALL POSSIBILITIES AND CONCLUDING THAT NONE OF THEM OFFERED HOPE FOR IMMEDIATE HELP THE ONLY IMMEDIATE POSSIBILITY SEEMED TO BE A LOAN ON THE BASIS OF THE WASHINGTON AGREEMENT ON GOLD. APEL TOLD COLOMBO THAT BUNDESBANK PRESIDENT KLASSEN HAD TO AGREE. FORTUNATELY, THE BUNDESBANK COUNCIL HAD BEEN SYMPATHETIC WHEN APEL EXPLAINED THE POLITICAL IMPORTANCE OF DOING SOMETHING. EVERYONE AGREED THAT CONFIDENTIAL

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THE BUNDESBANK LOAN WAS A RISK, BUT A BEARABLE RISK. APEL RECOGNIZES THAT GOLD COLLATERAL HAS ONLY PSYCHOLOGICAL IMPORTANCE SINCE GOLD CANNOT REALLY BE SOLD AND LOAN WOULD JUST GO ON AND ON RATHER THAN DELIVERY OF THE GOLD TO THE BUNDESBANK. EVEN SO, IT HAD USEFUL PRESENTATIONAL FEATURES FOR THE GERMAN PUBLIC.

7. APEL TOLD ME HE DOUBTED THAT THE LOAN WOULD BE OF ANY MAJOR HELP TO THE ITALIANS. HE WAS CONCERNED THAT COLOMBO WAS UNABLE TO ANSWER THE QUESTION AS TO WHAT WOULD HAPPEN WITHIN 2-3 MONTHS WHEN THE RESULTS OF THE ITALIAN STABILIZATION PROGRAM ARE FELT. APEL BELIEVED THAT EVERYONE SHOULD HELP THE ITALIANS IN MAINTAINING CONFIDENCE IN THEIR PROGRAM THROUGH PRAISE RATHER THAN CRITICISM.

8. APEL STRESSED THAT THE FRG IS TOO SMALL TO HELP ITALY ALONE AND THERE SHOULD BE AN INTERNATIONAL ACTION. THERE IS AN ENORMOUS GAP BETWEEN SURPLUSES IN SOME COUNTRIES AND LOSSES IN OTHERS. HE HAD ASKED COLOMBO WHY THE ITALIANS HAD NOT SOUGHT A LOAN FROM THE SHAH SUCH AS THAT GRANTED TO THE FRENCH. COLOMBO SAID THEY HAD TRIED, BUT HAD BEEN REJECTED ON THE GROUNDS THAT THE SHAH WAS NOT ABOUT TO FINANCE INSTABILITY IN ITALY. APEL SAW THE POSSIBILITY OF ANOTHER REPETITION OF THE 2 BILLION DOLLAR OPERATION LATER ON, BUT EVENTUALLY THE ITALIANS WILL HAVE NO COLLATERAL LEFT.

9. APEL FEELS THAT NO ONE KNOWS A SOLUTION TO THE RECYCLING PROBLEM. THE ARABS DO NOT YET REALLY WANT TO INVEST. THIS, OF COURSE, MIGHT CHANGE AS ABSORPTIVE CAPACITY OF THE LARGE BANKS DIMINISHES. IF THE BANKS DO NOT FIND BORROWERS OR

IF THE BORROWERS ARE NOT GOOD RISKS, THIS CHANNEL
MIGHT BE CLOSED, THE ARABS CAN INVEST IN US GOVERNMENT
BONDS, BUT THIS WILL NOT INSURE THAT THE COUNTRIES
THAT NEED THE MONEY GET IT. IN THE CIRCUMSTANCES
APEL SEES NO SOLUTION BUT TO MEET EACH PROBLEM WITH
A "HAND TO MOUTH" PHILOSOPHY , SUCH AS THE GERMANS DID
IN THE RECENT ITALIAN LOAN. HE POINTED OUT, HOWEVER,
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THAT IN THIS FIELD OF ENDEAVOR IT IS INCREASINGLY
DIFFICULT TO TALK ABOUT LONG-TERM PROSPECTS AND
PLANNING. HE TOLD ME THAT HE HOPES TO HAVE A CHANCE TO
DISCUSS THESE PROBLEMS WITH SECRETARY SIMON WHEN HE NEXT SEES HIM.
IN RESPONSE TO MY QUERY HE SAID
HE HAD NO OTHER SPECIAL TOPICS ON HIS MIND FOR
DISCUSSION AT THE MOMENT.

10. APEL TOLD ME, INCIDENTALLY, THAT THE ONLY THING HE
COULD SAY ABOUT CHANCELLOR SCHMIDT'S MEETING WITH
PRESIDENT GISEARD WAS THAT THE FRENCH HAD NOT
FOLLOWED THE ITALIAN EXAMPLE AND ASKED FOR ANY
FINANCIAL ASSISTANCE FROM THE FRG.
HILLENBRAND

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